Bearish market structure | Best guide with illustrations and examples!

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Before we study about bearish market structure, let us understand the basics of market structure.

What is Market structure?

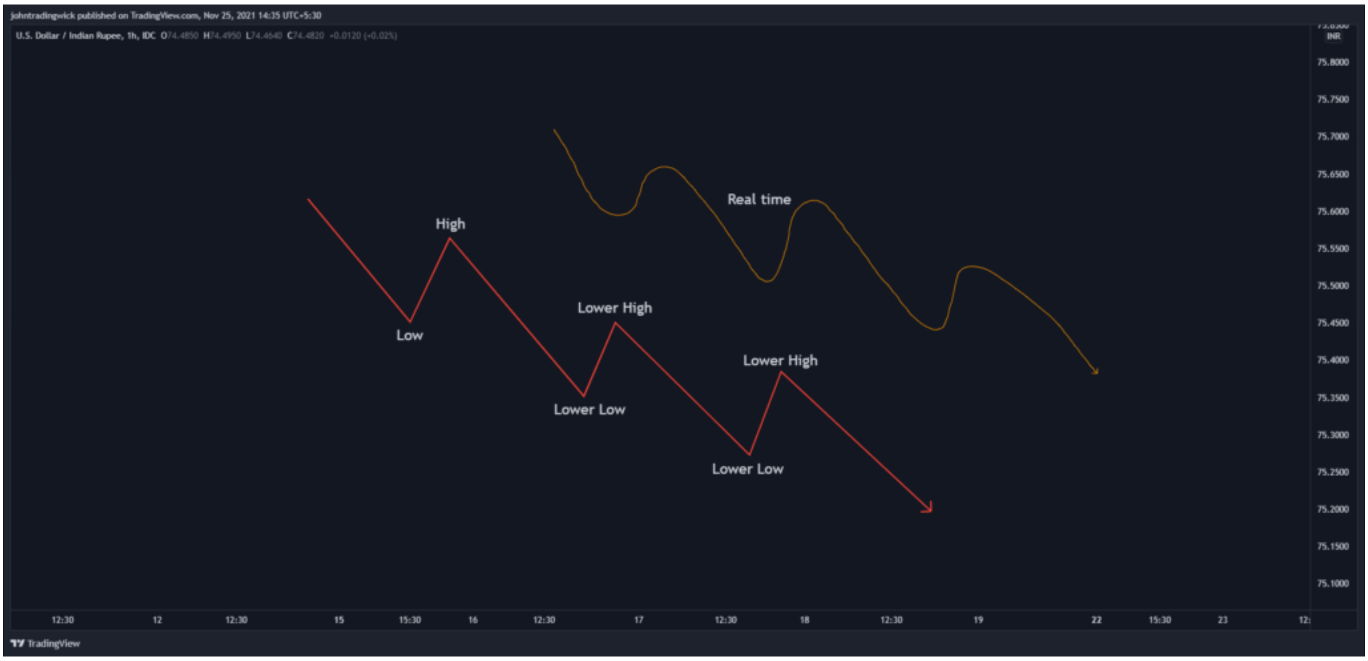
Market structure is a simple and a basic form of understanding, how the markets move. The price action is how the market moves based just on price, without the consideration of trends and how they may continue. But the market structure is focused mainly on the trend.

The structure is formed using swing highs and swing lows. In simple words, it is the path followed by the price to move from an initial point to a final point. You may have already heard about the formation of **higher highs and higher lows in a bullish trend** or the formation of **lower highs and lower lows in a bearish trend**. This is nothing but market structure.

What is a Bearish market structure?

A bearish market structure is a structure that constitutes of formation of a series of lower highs and lower lows. In simple words, when the price is making lower lows and lower highs, it is said to be forming a bearish market structure.

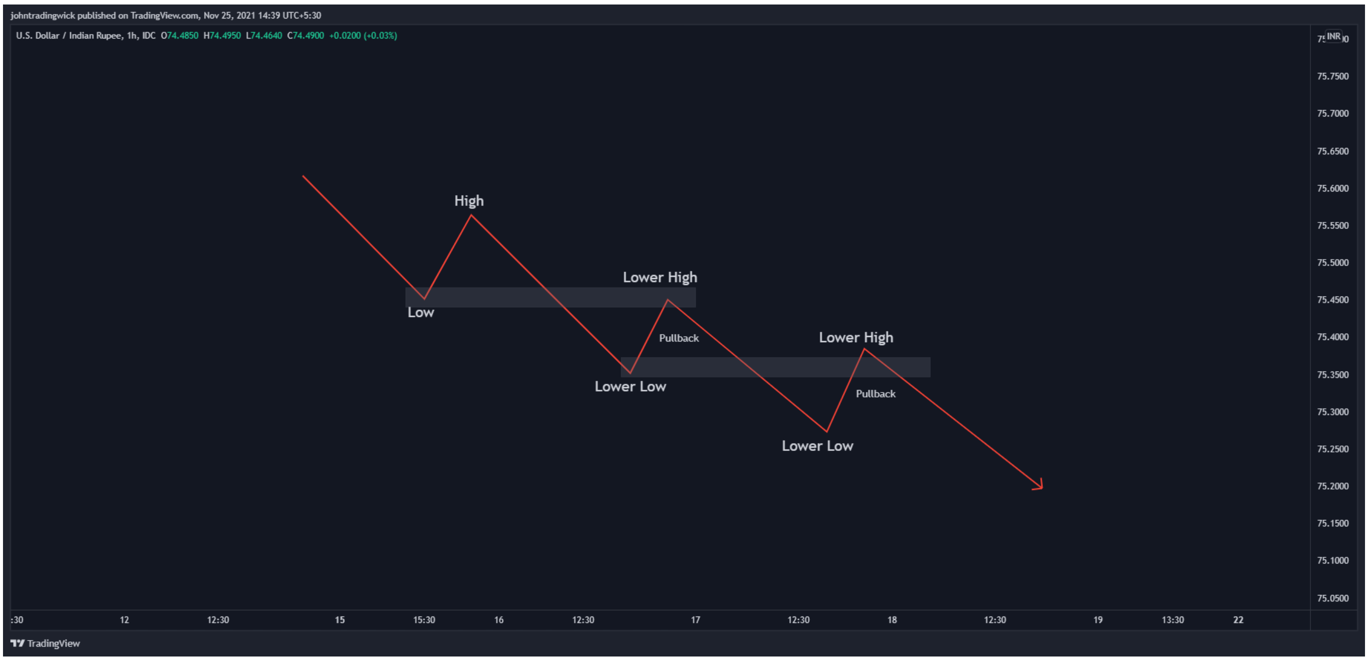
Illustration: Bearish market structure



What is the use of identifying a bearish market structure?

Identifying any market structure plays a crucial role in entry and exit. In the case of a bearish market structure, the previous lows are often seen as resistance zones where new shorts can be entered with an expectation of lower price movement. When the price returns to or near the previous low, it is often seen as a selling opportunity, commonly known as “selling the rip”.

Exhibit: Pullback in a bearish market structure



If a stock is moving in a bearish trend but the price prints a new higher high, the trader must become cautious because a trend change may be underway or it may just consolidate before resuming the original trend or it may very well be a bull trap. If a trend change is confirmed, the trader may exit the shorts and look for the trades on the long side.

So, after the formation of a new high, there are only 3 scenarios that can arise.

1. Trend reversal

2. Consolidation and continuation
3. Bull trap

Exhibit 1: Creation of a new high

Exhibit 2: Trend reversal

Exhibit 3: Consolidation and Continuation

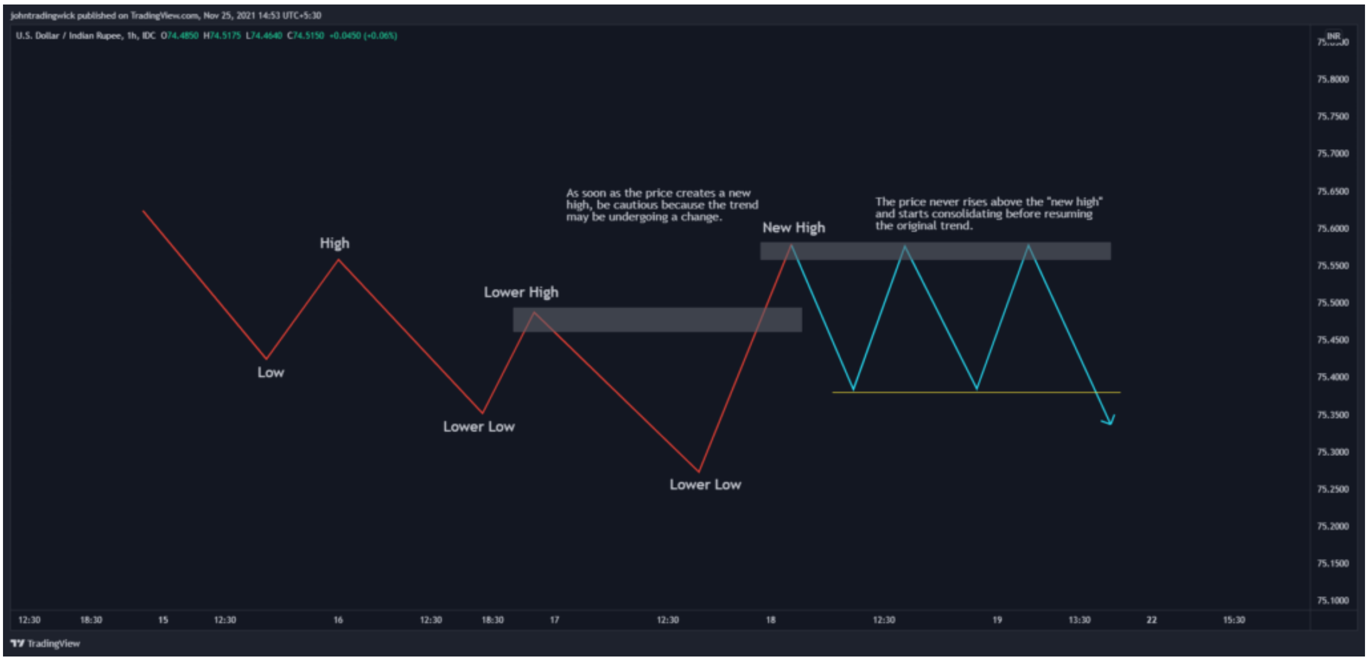
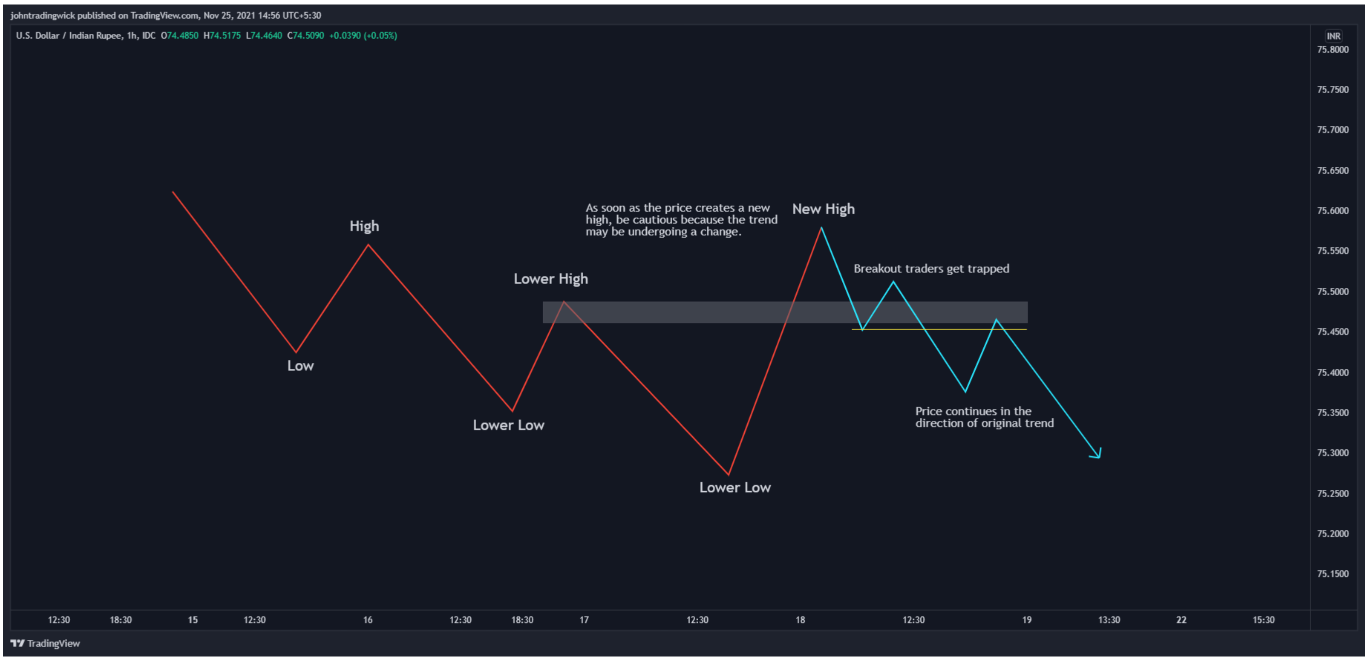


Exhibit 4: Bull Trap



These are the only structure that can form in a bearish trend and they will occur time and again. Hence, all these concepts are valid on all time frames.

This is all you need to know about a bearish market structure. Now, open any random chart and back test the concepts. The more you practice, the better you will become. Whatever strategy you use, understanding the structure will always make you more confident in your trades.

Important links:

- Follow the free **Telegram channel** for early updates.
- What is Market structure?
- Bullish market structure